VS Industry (VSI MK)

Turning The Corner; Deep Value Offers Compelling Upside

BUY (Maintained)	
Share Price	RM0.195
Target Price	RM0.340
Upside	+74.4%

Analyst(s)
Desmond Chong
desmondchong@uobkayhian.com
+603 2147 1980

Highlights

- Recovery is turning increasingly visible, supported by stronger volume ramp-up across its customer base, narrowing losses from loss-making divisions, and early benefits from recently-implemented strategic initiatives.
- VS trades at just 7.5x FY27F PE (-1SD below historical mean) and 0.3x FY27F P/BV (-2SD), well below even the trough valuations seen during the MCO period (0.83-0.88x P/BV), suggesting limited downside with asymmetrical upside potential.
- Current valuations more than compensate for risks. Maintain BUY with a target price of RM0.34. Key re-rating catalysts include further order normalisation, improving capacity utilisation, sustained earnings recovery, and potential new customer wins.

Analysis

- **Prolonged recovery path since late-25...** Recall that VS Industry (VS) recorded two consecutive quarters of core losses, with order weakness observed across its customer base following the implementation of reciprocal tariffs and softer end demand. Although 3QFY26 revenue rose 5% qoq, core net losses widened by 11%, primarily due to the absence of contributions from its highly profitable sub-assembly segment following customers' supply chain reconfiguration initiatives. Adding to the headwinds, recent Middle East tensions have heightened the risk of supply chain disruptions, particularly for E&E component sourcing tied to a key customer, potentially slowing the pace of recovery even as the prolonged inventory correction cycle approaches its end.
- **…but signs of recovery are emerging.** Despite the near-term challenges, management highlighted encouraging signs of order replenishment following seven months of inventory correction across most of its key customers. Demand is also being supported by the typical year-end seasonal ramp-up, alongside the group's strategic decision to partially absorb tariff-related costs in exchange for higher order commitments amid ongoing supply chain consolidation by customers. Looking ahead, management expects a stronger volume ramp-up from May 26 onwards with improved visibility through 4Q26. Earnings recovery is expected to be driven by: a) new product model launches from a key customer, b) narrowing losses from its Philippines operations as utilisation improves on new programme ramp-ups, and c) recovering orders from its coffee brewer and US-based customer segments.

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4248	3788	3235	3720	4227
EBITDA	413	223	157	286	321
Operating profit	287	96	27	156	188
Net profit (rep./act.)	246	37	5	102	125
Net profit (adj.)	210	51	5	102	125
EPS	6.3	0.9	0.1	2.6	3.2
PE	3.7	14.9	152.5	7.5	6.1
P/B	0.33	0.36	0.36	0.34	0.33
EV/EBITDA	2.2	3.1	4.4	2.7	2.5
Dividend yield	9.5	4.1	0.2	3.9	4.9
Net margin	5.8	1.0	0.2	2.7	3.0
Net debt/(cash) to equity	-5.8	-6.1	-5.1	-5.1	-5.1
Interest cover	22.5	11.4	6.7	12.2	13.7
ROE	11.1	1.7	0.2	4.6	5.6
Consensus net profit			-18	63	98
UOBKH/Consensus (x)			-0.29	1.63	1.28

Source: VS, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Information Technology
Bloomberg ticker:	VSI MK
Shares issued (m):	3,854.5
Market cap (RMm):	751.6
Market cap (US$m):	181.7
3-mth avg daily t'over (US$m):	3.1

Price Performance (%)

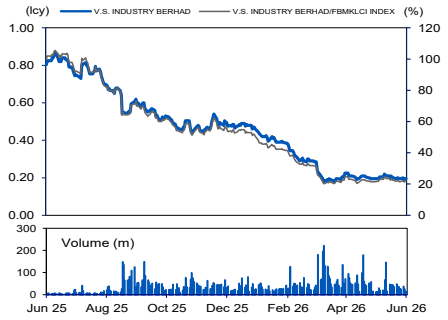
52-week high/low RM0.87/RM0.17

1mth	3mth	6mth	1yr	YTD
(2.5)	(32.8)	(59.4)	(74.8)	(59.8)

Major Shareholders

	%
Beh Hwee Sze	7.4
Beh Hwee Lee	7.4
Aberdeen	6.8

Price Chart



Source: Bloomberg

COMPANY DESCRIPTION

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Steering through choppy waters.** Against a backdrop of persistent structural challenges facing the Electronic Manufacturing Services industry, management continues to execute on both diversification and cost optimisation initiatives. On the revenue front, the group is actively reallocating capacity beyond the consumer electronics segment, with potential new programme wins expected to materialise as early as year-end. Concurrently, it has undertaken workforce and operational consolidation measures, while evaluating impairments on underutilised machinery and upgrading internal systems to improve efficiency. While industry-wide excess capacity is likely to keep margins compressed in the near term, management remains confident that improving utilisation rates from the ongoing order recovery will support a gradual improvement in profitability. Importantly, operating cash flow remains positive, providing sufficient flexibility to navigate the current challenging environment.
- **Short-term pain for long-term gain.** Management highlighted that prevailing industry headwinds, particularly tariff-related pressures, are likely to continue weighing on profitability across the Contract Manufacturers/EMS industry at least through FY26. To navigate the challenging operating environment, the group has adopted a strategic decision to partially share the tariff cost burden with customers in exchange for higher order volumes. While this will continue to lead to near-term margin compression, the current low-margin landscape is also driving a natural industry shake-out, accelerating a survival-of-the-fittest phase where weaker players are exiting the market, creating opportunities for market share consolidation by established and resilient players such as VS.
- **New foray – potential rerating driver.** VS continues to attract interest from new MNCs, leveraging Malaysia's entrenched ecosystem. Early-stage discussions are underway, with a medical industry collaboration emerging as the most tangible (double its capacity in Johor Bahru with VS listed as a strategic partner). PCB assembly has already commenced for this client, but we exclude contributions from our forecasts for now.

Sales Assumption

(RMm)	FY25	FY26F	FY27F	FY28F
Sales	3,788	3,235	3,720	4,227
Key customer	1,988	1,925	2,265	2,654
Customer Z	352	250	275	302
China	30	40	72	72
Indonesia	333	349	349	349
New key customers	400	300	350	400
Others	686	372	409	450
Core net margin (%)	1.4%	0.2%	2.7%	3.0%

Source: VS, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM0.34,** based on 12x 2027F PE (which is -0.5SD to the 10-year mean).

Earnings Revision/Risk

- **Earnings revision:** None.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3,787.8	3,234.8	3,719.7	4,227.0
EBITDA	222.6	156.6	286.3	321.4
Deprec. & amort.	127.0	129.7	129.8	133.4
EBIT	95.6	26.9	156.5	188.0
Associate contributions	(1.1)	2.5	2.5	2.5
Net interest income/(expense)	(19.5)	(23.5)	(23.5)	(23.5)
Pre-tax profit	75.0	5.8	135.5	167.0
Tax	(42.0)	(0.9)	(35.4)	(43.7)
Minorities	3.7	0.1	1.5	1.8
Net profit	36.7	5.0	101.6	125.1
Net profit (adj.)	51.3	5.0	101.6	125.1

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	912.5	932.8	953.0	969.6
Other LT assets	293.0	295.5	298.0	300.4
Cash/ST investment	858.7	868.2	791.4	735.6
Other current assets	1,661.3	1,587.5	1,782.1	2,000.1
Total assets	3,725.5	3,684.0	3,824.5	4,005.8
ST debt	454.3	454.3	454.3	454.3
Other current liabilities	701.9	656.9	727.5	822.8
LT debt	332.9	332.9	332.9	332.9
Other LT liabilities	85.0	85.0	85.0	85.0
Shareholders' equity	2,153.1	2,156.6	2,228.0	2,315.9
Minority interest	(1.7)	(1.8)	(3.3)	(5.1)
Total liabilities & equity	3,725.5	3,684.0	3,824.5	4,005.8

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	530.8	264.3	206.8	234.7
Pre-tax profit	75.0	5.8	135.5	167.0
Tax	(42.0)	(0.9)	(35.4)	(43.7)
Deprec. & amort.	127.0	129.7	129.8	133.4
Associates	1.1	(2.5)	(2.5)	(2.5)
Working capital changes	336.9	108.5	(44.2)	(43.1)
Other operating cashflows	17.2	8.1	8.0	8.0
Investing	(139.1)	(200.0)	(200.0)	(200.0)
Capex (growth)	(188.3)	(150.0)	(150.0)	(150.0)
Investments	31.4	31.4	31.4	31.4
Others	15.8	(81.4)	(81.4)	(81.4)
Financing	(257.2)	(54.8)	(83.6)	(90.6)
Dividend payments	(77.3)	(1.5)	(30.2)	(37.2)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(160.3)	(34.6)	(15.4)	(14.7)
Others/interest paid	(19.6)	(18.7)	(38.0)	(38.7)
Net cash inflow (outflow)	134.5	9.5	(76.8)	(55.9)
Beginning cash & cash equivalent	755.0	858.7	868.2	791.5
Changes due to forex impact	(30.9)	0.0	0.0	0.0
Ending cash & cash equivalent	858.6	868.2	791.4	735.6

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	4.8	7.7	7.6
Pre-tax margin	2.0	0.2	3.6	4.0
Net margin	1.0	0.2	2.7	3.0
ROA	0.9	0.1	2.7	3.2
ROE	1.7	0.2	4.6	5.5
Growth				
Turnover	(10.8)	(14.6)	15.0	13.6
EBITDA	(46.1)	(29.6)	82.8	12.3
Pre-tax profit	(75.8)	(92.3)	2,236.2	23.2
Net profit	(85.1)	(86.4)	1,932.0	23.1
Net profit (adj.)	(75.5)	(90.3)	1,932.0	23.1
EPS	(75.5)	(92.3)	2,500.0	23.1
Leverage				
Debt to total capital	26.8	26.8	26.1	25.4
Debt to equity	36.6	36.5	35.3	34.0
Net debt/(cash) to equity	(3.3)	(3.8)	(0.2)	2.2
Interest cover	11.4	6.7	12.2	13.7

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link: https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."